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OO RUEHBC RUEHDE RUEHKUK RUEHMOS
DE RUEHDM #6524/01 3520723
ZNR UUUUU ZZH
O 180723Z DEC 05
FM AMEMBASSY DAMASCUS
TO RUEAWJA/DEPT OF JUSTICE WASHDC IMMEDIATE
RUEHC/SECSTATE WASHDC IMMEDIATE 6176
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
INFO RUEHEE/ARAB LEAGUE COLLECTIVE IMMEDIATE
RHEHAAA/WHITE HOUSE WASHDC IMMEDIATE
RHEHNSC/NSC WASHDC IMMEDIATE

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INL FOR RINDLER
JUSTICE (RUEAWJA/DEPT OF JUSTICE WASHDC)
TREASURY FOR GLASER/LEBENSON

E.O. 12958: N/A
TAGS: [EFIN](#) [KCRM](#) [KTFN](#) [PTER](#) [SNAR](#)
SUBJECT: 2005 REPORT ON FINANCIAL CRIMES AND MONEY
LAUNDERING

11. (U) Summary: Throughout 2005, Syria has enacted legislation to strengthen Anti-Money Laundering and Combating the Financing of Terror (AML/CFT) regulations in its financial sector, which has opened up in the last two years to include four private banks. It has begun to develop a Financial Intelligence Unit (FIU) with investigative and sanctioning authority, and is working on integrating its AML/CFT efforts with other countries in the Middle East and North Africa branch of the Financial Action Task Force (MENA/FATF). However, there remain significant AML/CFT vulnerabilities in Syria's financial and non-financial sectors that have not been addressed by necessary legislation or other government action. The United States has designated the country's largest bank, the Commercial Bank of Syria (CBS), as an institution of primary money laundering concern for its involvement in the Iraqi oil-for-food scandal and the threat that it still may be exploited by criminal enterprises. In addition, Syria's black market hawaladars are unregulated, and the country's borders remain porous. Most of the money laundering threat is of domestic origin and among Syria's political and business elite, whose corruption and extra-legal activities represent the biggest obstacle to Syria fully choking off money laundering and terrorist financing activities. End summary.

Syria's Weak but Growing Banking Sector

12. (U) Syria is not an important regional or offshore financial center, due primarily to its still under-developed private banking sector and the fact that the Syrian Pound (SYP) is not a fully convertible currency. Syria began taking steps to develop a private banking sector in April 2001, with Law No. 28, which legalized private banking, and Law No. 29, which established rules on bank secrecy. Bank of Syria and Overseas, a subsidiary of Lebanon's BLOM Bank, was the first private bank to open in Syria in January 2004, followed quickly by Banque BEMO Saudi Fransi and the International Bank for Trade and Finance. Bank Audi became the fourth private bank in Syria, opening a Damascus branch in October 2005. The sector's total capitalization is small, approximately \$300 million USD, and while the banks report steady growth in their deposit accounts and are playing an increasing role in providing the business sector with foreign currency to finance imports, unnecessary regulations that do not allow banks to make money on their liquidity hamper the sector's continued development.

13. (U) The banking sector is dominated by the CBS, which holds almost 90% of all deposits and controls most of the country's foreign currency reserves. With the liberalization of the sector and competition from the private banks, the CBS is preparing to provide a range of retail services and more competitive interest rates. However, the CBS and the country's four other specialized public banks- the Agricultural Cooperative Bank, the Industrial Bank, the Real Estate Bank, and the People's Credit Bank- still primarily focus on financing Syria's public enterprises. In May 2004, the U.S. Department of the Treasury designated the CBS, along with its subsidiary, the Syrian Lebanese Commercial Bank, as a financial institution of "primary money laundering concern," pursuant to Section 311 of the USA Patriot Act. This designation remains in place due to continued concerns that the CBS may still be exploited by criminal enterprises. However, the final rulemaking on the implementation of the special measure against CBS has not been issued, pending further discussions between the U.S. Government and the government of the Syrian Arab Republic (SARG).

Recent AML/CFT Legislation

14. (U) Recent legislation has provided the Central Bank of Syria with new authority to oversee the banking sector and investigate financial crimes. The SARG passed Decree 59 in September 2003 to criminalize money laundering and create an Anti-Money Laundering Commission, which was established in May 2004. In response to international pressure to improve its AML/CFT regulations, the SARG passed Decree 33 in May 2005, which strengthened the Commission and laid the foundation for a functioning FIU. The Decree finalized the

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Commission's composition to include the Governor of the Central Bank, a Supreme Court Judge, the Deputy Minister of Finance, the Deputy Governor for Banking Affairs, the SARG's Legal Advisor, and will include the Chairman of the Syrian Financial Market once the Market is operational.

15. (U) Under Decree 33, all banks and non-financial institutions are required to file Suspicious Activity Reports (SAR) with the Commission- which is acting as the FIU- for all transactions over \$10,000 USD, as well as all suspicious transactions regardless of amount. The chairmen of Syria's private banks report that they employ internationally recognized Know Your Customer (KYC) procedures to screen transactions and employ their own private investigators to check suspicious accounts. In September 2005, the Commission informed banks that they must use KYC procedures to follow up on their customers every three years and maintain records on closed accounts for five years. While non-financial institutions also are required to file SARs with the commission, the Central Bank candidly admits that most of them do not know about the requirements of the law. The Syrian Chamber of Commerce has organized workshops for its membership about the law, but it will take some time for the information to penetrate the market.

16. (U) Once a SAR has been filed, the Commission has the authority to conduct an investigation, waive bank secrecy on specific accounts in order to gather additional information, share information with the police and judicial authorities, and instruct the police to carry out a criminal investigation. In addition, Decree 33 empowers the Governor of the Central Bank, who is the chairman of the Commission, to share information and sign Memoranda of Understanding (MOUs) with foreign FIUs. In November 2005, the Prime Minister announced that the Commission had completed an internal reorganization, creating four specialized units to: oversee financial investigations; share information with other SARG entities including customs, police and the judiciary; produce AML/CFT guidelines and verify their implementation; and develop a financial crimes database.

¶17. (U) Decree 33 provides the Commission with a relatively broad definition of what constitutes a crime of money laundering, but one that does not fully meet international standards. The definition includes acts that attempt to conceal the proceeds of criminal activities, the act of knowingly helping a criminal launder funds, and the possession of money or property that resulted from the laundering of criminal proceeds. In addition, the law specifically lists thirteen crimes that are covered under the AML legislation, including drug crimes, fraud, and the theft of material for weapons of mass destruction. While a SAR is under investigation, the Commission can freeze accounts of suspected money launderers for a non-renewable period of up to eighteen days. However, the Syrian judicial system is notoriously slow, and observers contend that this period is too short to hinder criminal activities. The law also stipulates the sanctions for convicted money launderers, including a three to six-year jail sentence and a fine that is equal to or double the amount of money laundered. Further, the law allows the SARG to confiscate both the money and assets of the convicted money launderer.

¶18. (U) The SARG has taken few meaningful steps in 2005 to combat terrorist financing (TF). While President Asad signed Law #5 in March 2005 to formally make Syria a party to the 1999 International Convention on the Suppression of the Financing of Terrorism, neither Law #5 nor Decree 33 are clear regarding the illegality of TF. In addition, Decree 33 is ambiguous as to whether TF is a predicate offense for money laundering. The Anti-Money Laundering Commission does circulate among its private and public banks the UNSC 1267 Committee's list of terrorists associated with Usama bin Laden, Al'Qaida and the Taliban. The Commission, through the Ministry of Foreign Affairs, has informed Post of action it has taken to freeze the assets of individuals suspected of being on the list. The total dollar amounts of frozen assets in 2005 were insignificant.

¶19. (U) Syria is trying to develop its AML/CFT structure according to international standards. Syria participated in the most recent meeting of MENA/FATF, which met in Beirut in September 2005, and hosted a team from the EGMONT Group, an

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international consortium of countries with fully-functioning FIUs, regarding the creation of its FIU. Syria has stated its intention to join the EGMONT Group in the near future. In addition, Syria will host a legal team from FATF in early 2006, which will assess its progress in enforcing AML/CFT statutes. In addition, Syria is a party to the 1971 UN International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and has signed but not ratified the UN Convention against Transnational Organized Crime. Syria is receiving significant offers of aid from the European Union to build the capacity of its financial, customs and judicial systems, and has queried Post about the possibility of receiving technical assistance from the USG. However, due to the current political situation, the SARG and the USG are not sharing significant amounts of information regarding AML/CFT issues. What little communication there is focuses on the Commercial Bank of Syria's efforts to avoid sanctions associated with its designation as an institution of primary money laundering concern under Section 311 of the Patriot Act.

Limited Results, and Systemic Weaknesses

¶10. (U) Despite the legislative powers of the Commission, only 100 suspicious transactions were reported in 2005, including SARs from the police who identified suspected money laundering activities in the course of other investigations. There have been no convictions or arrests in 2005. Since money laundering legislation is new, most judges are not

aware of the law or understand the evidentiary requirements. The Commission has estimated that it will take at least a year before Syria's judicial system is fully capable of prosecuting money laundering cases. The Commission further reported that it has not conducted investigations into any of the SARs filed over the past year, and that its ongoing investigations are into the financial activities of individuals who already were charged and imprisoned for financial crimes before Decree 33 went into effect. The Commission itself is hampered by human resource constraints. It has a staff of six, and hopes to expand to fifteen by the end of 2006. Most of the staff has not received extensive training in AML/CFT, although the European Commission has expressed its willingness to establish a training center in the Central Bank.

¶11. (U) Although Decree 33 provides the Central Bank with a foundation to combat money laundering, most Syrians still do not maintain bank accounts. Very few Syrians use checks or credit cards, and the use of ATM machines is relatively new. The Syrian economy is primarily cash-based, and Syrians use moneychangers, some of whom also act as hawaladars, for many financial transactions. The informal financial sector is illegal and there is scarce information on its size or activities. Estimates of the volume of business conducted in the black market by Syrian moneychangers range between \$15-70 million USD a day. Due to the lack of hard data on this sector, the SARG admits that it does not have visibility into the amount of money that currently is in circulation. The SARG has begun issuing new regulations to entice people to use the banking sector, including offering high interest Certificates of Deposit and allowing Syrians to access more foreign currency from banks when they are traveling abroad. In addition, the SARG has advertised a deadline of January 15 by which it hopes to pass a Moneychangers Law to regulate the sector. Once the Moneychangers Law is passed, the Commission will have the authority to monitor the sector under Decree ¶33. Until the SARG passes sufficient legislation and enforcement mechanisms, the hawaladars in Syria's black market remain a source of concern for money laundering and terrorist financing.

¶12. (U) The SARG also has not updated its laws regarding charitable organizations to include strong AML/CFT language. While the SARG decided at the end of 2004 to restrict charitable organizations to only distributing non-financial assistance, the current laws do not require organizations to submit detailed financial information or information on their donors. However, the Commission has stated its intention to cooperate with the Ministry of Social Affairs to deal with this issue.

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¶13. (U) While the SARG maintains strict controls on the amount of money that individuals can take with them out of the country, there is a high incidence of cash smuggling across the Lebanese and Jordanian borders. Most of the smuggling involves SYP, as there are strong markets for Syrian currency among ex-pat workers and tourists in Lebanon, Jordan and the Gulf countries, although some of the smuggling may involve the proceeds of narcotics and other criminal activity as previously reported. In addition to cash smuggling, there also is a high rate of commodity smuggling out of Syria, particularly of diesel, caused by individuals buying diesel domestically at the low subsidized rate of approximately 10 cents US per liter and selling it for much higher prices in neighboring countries. There is evidence that the smuggling trade is occurring with the knowledge of or perhaps even under the authority of the Syrian security services.

¶14. (U) The General Directorate of Customs has stated that it is under staffed and insufficiently resourced to effectively handle the problem of smuggling, and that it currently lacks the means to share information among border posts or other

government agencies. Customs recently announced that it plans to develop a special office to combat AML/CFT in coordination with the Ministry of Finance and Syria's security services, and plans to place cameras at all border posts and link them with a unified database. Customs currently lacks the infrastructure to effectively monitor or control even the legitimate movement of currency across its borders. Tourists are not required to declare the amount of money they are bringing into Syria, for instance. In order to combat corruption among customs officers, the General Directorate of Customs announced in December 2005 that it plans to ban all cash transactions at the borders, including the payment of customs duties, and will replace cash transactions with a system that utilizes pre-paid cards. However, most of the plans to unify and streamline customs procedures are far from being realized and depend upon technical and financial support from foreign donors.

¶15. (U) Syria's free trade zones also may provide an easy entry or transit point for the proceeds of criminal activities. There are seven free zones in Syria, serviced mostly by subsidiaries of Lebanese banks, including BLOM, BEMO and Bank of Beirut and Arab Countries (BBAC). The volume of goods entering the free zones is estimated to be in the billions of dollars, since all automobiles and automotive parts enter the zones free of customs tariffs before being imported into Syria. There also is a significant amount of trade that transits Syria through the zones, gaining Syrian value added before being shipped to foreign markets. While all industries and financial institutions located in the free zones must be registered with the General Organization for Free Zones, which is located in the Ministry of Economy and Trade, the Syrian General Directorate of Customs does not have strong procedures to check country of origin certification or the resources to adequately monitor goods that enter Syria through the zones. There are indications that Syrians have used the free zones to import goods into Syria in violation of USG sanctions under the Syrian Accountability and Lebanese Sovereignty Act.

¶16. (U) Comment: While Syria has made strides throughout 2005 in developing AML/CFT regulations that govern its financial sector, non-financial institutions and the unregulated black market remain very vulnerable to money laundering and terrorist financiers. In addition, the General Directorate of Customs, the Central Bank and the judicial system in particular lack the resources to effectively implement AML/CFT legislation. Although the SARG has stated its intention to create the technical foundation through which different government agencies can share information about financial crimes, this does not exist to date. In addition to these logistical problems, there is serious concern that the SARG lacks the political will to make TF illegal, and to classify what it sees as legitimate resistance groups as terrorist organizations. Further, corruption at the highest levels of government and business may represent the biggest obstacle to developing an effective and airtight AML/CFT regime.
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